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Ms. Leslie Dias
President, Local 2002
Canadian Auto Workers
7015 Tranmere Drive, Unit 5
Mississauga, ON L5S 1M2

Ms. Katherine Thompson
President Air Canada Component
Airline Division of CUPE
25 Belfield Road
Etobicoke, ON M9W 1E8

Mr. Russell Williams
Council 1 Chairman
Canadian Airline Dispatchers Association
Lester B. Pearson International Airport
5935 Airport Road, 9th floor
Mississauga, ON L4V 1W5

Captain Paul Strachan
President, Air Canada Pilots Association
6299 Airport Road, Suite 205
Mississauga ON L4V 1W5

Mr. Chuck Atkinson
President and Directing General Chairperson
District Lodge 140
International Association of Machinists and Aerospace Workers
2580 Drew Road, Suite 203
Mississauga, ON L4T 3M5

Dear Ms. Dias, Ms. Thompson, Mr. Williams, Captain Strachan and Mr. Atkinson:

As the *Air Canada Pension Plan Funding Regulations, 2009* marked the second time in six years that Air Canada was granted relief regarding the solvency level of their pension plans, it is clear that the airline and its unions should be addressing the long run sustainability of the plans.

When the special regulations expire on January 30, 2014, if Air Canada is unable to meet the normal funding requirements for the plans under the legislative and regulatory framework, you should expect to find that your only recourse is the Distressed Pension Workout Scheme. The workout scheme is one of the reforms to the federal pension regulatory and legislative framework which has been developed to encourage sponsors and members of distressed pension plans to negotiate a resolution, without the need for company-specific special regulations. While the pension workout scheme will allow limited immediate funding relief to distressed pension plans, it will do so following the

company's public declaration of financial distress. Any funding relief would only be for the short-term and is intended to allow parties to negotiate changes to their pension arrangements, which would require the consent of members and retirees.

I strongly advise that both sides begin working on resolving the long-term sustainability of the pension plans now and open dialogue is key to achieving this goal. As such, I am strongly encouraging Air Canada and its unions create and fund a review panel, which would be tasked with reviewing the pension plans and making recommendations to ensure their long-term sustainability. The composition of the review panel would be determined by the airline and the unions. When the *Air Canada Pension Plan Funding Regulations, 2009* were being negotiated, you will recall that the Government hired the Honourable Justice James Farley as a mediator. A similar level of third-party expertise should be considered for the review panel, but you should note I would expect the parties to pay for these services in this case, rather than the Government.

I trust that you share my concerns for the long-term sustainability of the pension plans. I would appreciate receiving a status report by December 1st and quarterly updates thereafter.

Sincerely,

James M. Flaherty

c. Mr. Calvin Rovinescu, Air Canada